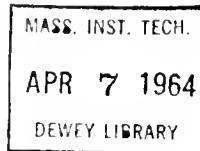






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Case Studies of Uganda Entrepreneurs:

Eight Short Cases

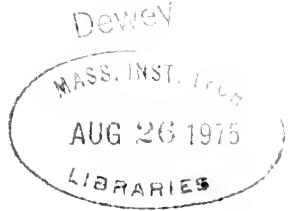
Henry B. Thomas

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INTRODUCTION

Henry B. Thomas served from 1960 to 1962 in the Uganda Development Corporation as an M.I.T. Fellow in Africa. The Uganda Development Corporation has since 1952 invested over £ 8 million in heavy and light industry, mining operations, agricultural plantations, financial institutions, and real estate in Uganda. Like most multiple purpose development corporations, the U.D.C. has been faced with the need to provide assistance to locally owned infant businesses. Since 1955, the Corporation has provided such assistance from a £ 70,000 reserve fund appropriated from its profits. Not all of this fund has been expended.

Mr. Thomas's work as a U.D.C. employee included participation in the Corporation's small industry effort. Because the interest in small industry assistance extends to many countries and many development corporations, it seemed worthwhile to document, in a detailed manner, yet without extensive analysis, a number of cases in which the U.D.C. had extended financial assistance. The work was undertaken by Mr. Thomas during the final months of his tour with the U.D.C. and during a period after his return from Africa as a Research Associate at the Massachusetts Institute of Technology's School of Industrial Management. He is currently with the International Finance Corporation in the Department of Development Bank Services, Washington, D.C.

These materials form part of a series of working papers on development bank problems for internal use at the School of Industrial Management and for use by others interested in the subject. They are not to be reproduced in whole or in part without the author's permission.

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School of Industrial Management
Massachusetts Institute of Technology

INTRODUCTION TO SMALL INDUSTRIES CASES

Henry B. Thomas
February 1963

The cases dealing with small industries that follow were abstracted from the files of the Development Division of Uganda Development Corporation (UDC) during May and June, 1962. The kind permission of the Corporation to permit this work is gratefully acknowledged. Work in the field of promoting small, African owned and operated industries is comparatively new. It is proceeding very much on a trial and error basis. Many mistakes have been made and will continue to be made. However, experience is being gained and solutions to the many problems found, albeit painfully at times.

UDC was founded in 1952 as a statutory body operating as a limited liability company. Its authorized capital is £ million ordinary shares of which £6.4 million have been issued (to the Uganda Government) and are fully paid. It has shown a net profit after taxes in each of its years of operation, the profit for 1961 amounting to £430,845. Its primary purpose is to further economic and industrial development and growth in Uganda.

Uganda itself is one of the countries of East Africa. Its total area is 92,500 square miles of which 16,400 are open water and swamps. Its total population is approximately 6.5 million including some 90,000 non-Africans. Coffee and cotton are its main products and amount to three-quarters of its exports. Industrial development is just starting, average per capita income (including subsistence) still being very low at £24 per annum.

The cases presented here represent only a very small part of UDC's efforts to assist industrial development in Uganda. They are offered as being indicative of the experience of this one organization. Practically all could be called failures in that the small industry assisted did not survive. However, such initial failures should not be surprising or discouraging in a

field as new as this. Besides, there are more recent cases (most too recent to be covered by this research) that show signs of success. It is hoped that what follows will throw light on some of the problems encountered in this area.

It is appropriate to describe the conditions under which UDC operates in this field, tangentially putting these efforts in their proper perspective within UDC's total activities. These conditions account for some of the failures of these efforts. Before this is done, however, the creation of UDC's Small Industries Development Reserve should be sketched.

Before UDC may make any new investment, it must receive the approval of the Governor-in-Council. This approval is required regardless of the size of the investment and gaining it is often quite time consuming. In 1955, recognizing the need to have a more flexible policy for helping small businessmen, UDC obtained approval from the Governor-in-Council for an appropriation of up to £20,000 from its 1955 profits (which were £263,049) to be put into a Small Industries Development Reserve. The UDC Board of Directors was empowered to make loans or investments from this Reserve without specific reference to the Governor-in-Council.

During 1956 several projects were considered and by the end of that year most of the original Reserve had been committed by authority of the Board to two enterprises, a local firm of building contractors and a local water engineering concern. As a result of these commitments and recognizing the long term possibility of further aiding small industries, another approach was made to the Governor-in-Council for the appropriation of a further £50,000 to the reserve from 1956 profits.

Government, however, took this opportunity to criticize the use of the first appropriation. It felt that the two concerns helped were too large to

be properly considered "small industries" and therefore should have been referred to the Governor-in-Council. In reply, UDC justified its action and restated the guiding philosophies behind establishing the Reserve by pointing out that it had not gone to the Governor-in-Council because these types of projects could not be justified on commercial grounds. The risks involved were too great. The establishment of the Reserve also allowed UDC to maintain a "clean balance sheet," which could be important for future capital raising exercises. A further reason for the program was that it enhanced the Corporation's reputation and acceptability among the Africans; it now not only assisted big business but also small business.

Government accepted these reasons but felt that a set of guiding principles should be established. Therefore, in approving the further appropriation late in 1957, it laid down four provisions for the use of the Reserve. These were:

- "(a) that the Corporation should only enter into schemes where technical knowledge and guidance are essential features;
- (b) that it should not enter into schemes which have previously been rejected by the Governor-in-Council;
- (c) that when any small industry becomes a viable and stable going concern, it should be treated thereafter as a separate scheme of capital investment; subject to approval in the normal way;
- (d) that full publicity should be given by the Corporation to the existence and purpose of the Fund throughout the territory."

These provisions were reinforced by four others UDC itself imposed. These latter were for internal guidance and to safeguard Government's intentions in allowing the Reserve to be set up. They were:

- "(a) that the application falls properly within the title of the fund - Development of Small Industries;
- (b) that the applicant knows what he wants to do exactly and has a definite scheme which he is qualified to carry out;
- (c) that the applicant has a record of proven performance in business life;
- (d) that the application is not for the development of retail trade."

In order to ease administrative problems and ensure speedy processing of applications, the Board agreed to establish a Small Industries Committee made up of three members of the Board who were more or less constantly in Kampala. Authority to approve loans from the Reserve not exceeding £1,000 was delegated to this committee. Its actual make-up varied from time to time to meet the exigencies of the situation.

The most difficult of the Government's provisions proved to be the first requiring UDC to supply technical knowledge and guidance. The Government felt that sufficient pure banking and loans facilities were available elsewhere. However, in most of the applications, the applicant himself had the technical ability and required only financial help. (This was, of course, part of UDC's second requirement as stated above. In some cases, though, technical help was required to adapt the applicant's skill to locally available raw materials.)

UDC interpreted this provision to refer to business as well as strictly technical guidance. This interpretation was tacitly accepted by Government. However, trouble was met in carrying out the provision. UDC assumed that merely offering this help was not what was intended by Government. The mere offer of help certainly was not sufficient in the actual case. However, how could UDC force acceptance of its advice - especially since it often could not offer financial help in the form of equity participation? It seemed of doubtful propriety, when lending money, to do more than ensure that the borrower used it for the purpose for which it was borrowed. In every case of assistance from the Reserve, business help and guidance was offered and the recipient put under strong pressure to accept it. In most cases he did not do so.

These eight provisions, however, do not account for all the difficulties experienced in assisting small businessmen. They merely limit the number and types of businessmen that could be helped from the Reserve so that it does not overlap other channels of help already available. There are inherent in the environment in which UDC operates more inhibitory conditions. The most important ones are three in number and relate to (a) Income Tax laws, (b) the land ownership laws, and (c) UDC manpower availability. Of equal importance, of course, is the African entrepreneur himself. This subject will be treated in another paper at some length (a précis of which was presented at the Evian Conference in August, 1962) and so will not be dealt with here.

It has been argued many times by UDC that the proper approach is to establish a partnership between the small businessman and UDC. This could best be done by UDC taking an equity position in the small industry. It would then have a clear cut right to take part in the direction of the business.

However, under the East African Income Tax laws, a limited liability company all of whose capital is owned by Africans is exempted from paying income tax on its profits. (This exemption applies only to Uganda.) UDC is not considered an African for the purposes of this law. Therefore, if it were to take an equity position in a company, that company would lose its exemption. Naturally businessmen are loath to have this happen.

UDC, as a result, has only been able to make loans. As proper security is usually lacking, these loans can hardly be considered commercial. The recipient ends up with all the gains that might be made; UDC, with the risks. With little security involved, there is less pressure on the recipient to honor his debt. The program therefore is, in large measure, a philanthropic one.

The question of security raises the second problem area. Many Africans, though possessing no other property of value, do own land. All land (with very few exceptions) was originally held by the Government in trust for the Africans. The ownership of some of this land, termed "mailo" land in Buganda, has been turned over to individual Africans. No non-African may own it. This refers to non-African corporation as well. Under this regulation, then, UDC is not permitted to own land and therefore cannot accept it as security. (Another lending agency, the Uganda Credit & Savings Bank, has been given preferred status in this respect; it can own land and therefore can and does accept it as security for loans.)

Thus, UDC can only offer financial assistance in the form of loans and it is proscribed from accepting land as security for these loans. On top of this, UDC's staff is not large enough to properly administer this small loan

program and also carry out its other work. The program is administered by the Development Division which also must initiate all other projects in which UDC might consider investing. The work involved in processing a £500 loan application is not commensurately less than drawing up plans, for example, for a £400,000 fertilizer plant. As there are many more small applications than large projects, the time involved in studying the former is out of all proportion to their relative importance. As time is limited due to limited manpower, naturally the small loans must suffer. This is especially true in the more important stages of the project, after the loan has been made. Manpower shortage makes it impossible to provide the continual guidance the small businessman so desperately needs.

This shortage of manpower has made itself felt in another way. For the first five years of its life, the program operated only in and around Kampala. This was partially a result of lack of publicity of the Reserve's existence in up-country areas and partially inability on the part of the UDC staff to administer loans to applicants far from UDC's offices in Kampala. As in other areas, improvements have been made in this situation. In September, 1960, two executives from Development Division made a tour of the Western Province to publicize the Reserve and look into small industry possibilities. The same type of tour was made in January, 1961 to the Eastern Province. These tours resulted in some applications being received from these areas. This type of effort is expected to continue.

It became obvious that activity in the small industries program was becoming too great for it to be handled by the same executives who were charged with the responsibility of progressing new, major projects. Therefore, in 1962, an executive in Development Division was put solely in

charge of administering the Reserve. With undivided attention available on the part of a UDC staff member it was hoped that the small African businessman would benefit from closer supervision. Supervising the businessman located up-country is still a problem, however. Efforts are being made to utilize the existing facilities of the Government trade officers and branches of the Uganda Credit & Savings Bank.

It can be safely said, though, that many of these efforts would be unnecessary were the businessman himself to take the initiative and bring his problems to UDC when they first occur. However, the businessman is often unable to recognize that he has a problem before it grows to such magnitude that no solution is possible. This can be seen in some of the cases that follow.

UDC, of course, is learning from its errors. It has also been helped by fundamental changes in the environment in which it operates. One such important change which recently occurred in Uganda and which ought to go far to make the program more successful is in the Income Tax laws. These laws have been changed to make all companies liable for taxes, regardless of their ownership. Now, therefore, UDC is able to take an equity position in companies it assists without the owners suffering. Of course, before this can happen, the company must be incorporated with limited liability. It can be expected that UDC will strongly encourage this step on the part of the businessmen whom it seeks to help.

There is also a chance, now that independence has been granted, that the laws governing the ownership of land will also be changed to allow non-African ownership. This would go far to increasing the attractiveness of

loans as security and would be more in line with the sums loaned. Also, with land at stake, the recipient would be much more likely to honor his debt promptly.

Internally, UDC has taken steps, as indicated above, to overcome the manpower bottleneck. This will always be somewhat of a problem as profits from this program can never be sufficient to pay for the costs of its administration. However, UDC has realized that it must accept this increased cost if the program is to have any chance of success. As it is committed to the program, it will no doubt resign itself to absorbing these costs.

Case 1

Mr. J. B. M. L. - Glass Manufacture

In the middle of 1957 Mr. J. B. M. L. was awarded a Kabaka's Government Scholarship to study glass technology and manufacture in India. Prior to this time Mr. L. had been employed by Makerere College in Kampala, Uganda. His capacity there is unknown but probably it was in the same field, perhaps as an assistant in the laboratory glass blowing shop.

Mr. L.'s studies and training took two and a half years. On his return in early January, 1960, he approached the Uganda Development Corporation (UDC) for help in preparing a detailed proposal for a small scale glass works to be erected in the Kampala area. He had previously approached both the Kabaka's Government and the Protectorate Government for assistance but they had been unable to help. They had referred him to UDC.

Mr. Lute's immediate problem was financial support over what he estimated to be a two month period. During this time he would prepare costings and operating estimates, examine and test sand available in the area, check on local prices and availability of furnace materials, etc. At the end of this period he would present to UDC a detailed proposal for UDC's consideration and possible financial participation. His initial estimate of the total financial investment needed was between £13,359 and 20,000."

His specific request was a grant or initial loan of £100 to cover his living expenses during the two month period. He also requested help from UDC in the form of market advice.

The idea of establishing a glass factory in Uganda was not a new one to UDC. It had spent considerable time in the past studying the possibilities.

There are two main types of glass manufacture which might be designated "blown" and "rolled." Rolled glass is essentially sheet glass used in buildings and similar applications. Blown glass covers most of the other types of glass manufacture. The equipment needed for each is quite different.

UDC, as well as pursuing its own independent study of the matter, had received over the years many enquiries from foreign firms. In all cases the available market for either type of manufacture had not been large enough to support the minimum economic factory size under consideration. All of these proposals, however, had involved expatriate management. With Mr. L.'s appearance it appeared that the subject might usefully be reviewed, especially as Mr. L. had given the impression of having "obvious capabilities." £100 did not seem to be too large a "gamble," and especially since it was UDC's policy to encourage African entrepreneurs. UDC therefore informed Mr. L. several days later that it would supply the requested financial support and that he should start immediately to prepare a formal proposal. It noted, however, that this formed no commitment on its part to participate in any final scheme, this depending on the scheme's viability. UDC also offered to supply any help it could.

To this end it got in touch with one of its subsidiary companies, an enameling factory located on the outskirts of Kampala, to see if there were any possibility of combining a glass factory with the existing operation. (It might be mentioned that the enameling factory was having trouble covering its overheads.) It was noted that the existing factory had extra floor space available, was near a good source of raw material (sand), engaged in a similar

type of process, had an administrative organization similar to what a glass factory could be expected to require, used similar retail outlets, and was located near a large industrial market for bottles (beer and soft drinks). However, nothing conclusive came from this initial approach due to the lack of a definite glass proposal.

Towards the end of January a press report appeared in one of the vernacular papers stating the UDC was going to help establish a glass factory. This report aroused a certain amount of local interest including a letter from the Ministry of Commerce and Industry asking what it was all about. UDC had to deny the story, saying that the establishment of such a factory depended upon its viability. The source of the story was never found.

During most of the rest of 1960 UDC continued to study the marketing aspects of the proposal, this still being the only apparent possible drawback to the scheme. There were already established in East Africa two glass bottle manufacturers who were capable of supplying all the present and anticipated future demand for this type of product. Though they were not located in Uganda, their size and competitiveness indicated that a small concern located in Uganda would have a very hard time capturing their Uganda markets.

Enquiries were made to the Uganda Electricity Board (UEB) concerning the possibility of supplying its glass insulators. There proved to be no market here as the UEB was switching over mostly to porcelain insulators. A similar enquiry to the Post Office was more hopeful; there could be a sizable demand provided the insulators met the required specifications. The market for tumblers proved to be too small and varied to support a factory though it might support a useful secondary product line.

The other major market for glass was in sheet glass. All of this type of glass was being imported. On the surface this had always looked promising as imported sheet glass was at least 3mm in thickness to withstand the rigors of shippage whereas normal house glass needed to be only 2mm. A review of previous studies, however, indicated that this market was still not large enough to support a local factory and besides it was doubtful that Mr. L.'s training had included this type of process.

The results of these studies were forwarded to Mr. L. as they came in. His replies, when received, indicated that he was not becoming discouraged. By the end of November, 1960, however, it had to be again concluded that glass manufacturing proposals in general "cannot show economic viability because of the size and diversity of market requirements in Uganda." Meanwhile, there had been no sign of any report or detailed proposal from Mr. L. One UDC executive wryly noted that "while I feel that he may be a reasonably good glass technician, he has so far shown no signs of possessing the calibre and attributes of a successful industrial pioneer."

In March of 1961 word was received that Mr. L. was working at Makerere College again. It seemed that he had been successfully persuaded to give up the idea of large scale glass manufacture and to concentrate on the production of laboratory glassware. However, in April Mr. L. did submit a proposal for a glass factory, involving £7,280. This scheme evidently was for the production of laboratory glassware only. Mr. L. also sent this proposal to UDC's Technical Department and Laboratory, located in Tororo, Uganda. They commented that they felt the manufacture of laboratory glassware on such a scale was initially too ambitious. They suggested that Mr. L. talk with one of the

major private Asian industrialists, a Mr. M., who operated a number of laboratories in conjunction with his many industrial pursuits as well as operating one of the glass factories.

UDC executive had a chance to talk to Mr. M. first. By this time Mr. L. had produced another scheme costing some £25,000 and designed to produce all types of bottles, tumblers, scientific apparatus, chimneys for kerosene lanterns, telephone insulators and plate glass. Mr. M. reaffirmed UDC's belief that the two existing bottle factories could supply all of East Africa's demands in all but sheet glass for the next 10 years. In any case, a factory to do what Mr. L. had in mind would cost somewhere near a quarter million pounds for all but the sheet glass. There could be room for a sheet glass factory in East Africa but the investment required for it alone would be close to half a million pounds. Though the market for scientific glassware was small, Mr. M. felt that it might be able to support a one man business. He expressed a desire to meet Mr. L.

During May UDC again studied the market for scientific apparatus and glass insulators, these being the only two product lines that seemed to have an immediate future for local manufacture. The results again indicated that though there was a market, it was only for very small quantities.

In June a very disturbing report was received from Mr. M.'s glass works on Mr. L.'s visit. It claimed that Mr. L. was not informed on the running of a glass factory, the technical details involved, or even the practical details, such as the actual blowing of glass, as done by native workers in the factory. However, a subsequent report requested from Makerere College claimed that Mr. L. was a good glassblower, successfully constructing

glass scientific apparatus, repairing them, and training assistants. He had a complete understanding of the principles involved. The College did not claim to know about Mr. L.'s knowledge of moulded glassware or the functioning of automatic machinery. However, they thought that he could manage a factory to produce scientific glassware, given financial guidance.

It was at this point that UDC discovered that Mr. L. had in fact been employed with Makerere College since April, 1960, not since early 1961 as it had at first believed. As he seemed contented with his employment and as there appeared to be no further point in pursuing the scheme for the time being, consideration was suspended.

In a discussion at the end of 1961 with Mr. L., the decision to temporarily shelve the project was reaffirmed. It was noted that the main reason was the lack of a large enough market for those products not already being produced. Mr. L. was encouraged to try to produce and service in the Makerere College workshop laboratory glass apparatus meeting requirements of schools, hospitals and colleges. If this proved profitable, it could develop into a separate business. Mr. L. appeared to accept this suggestion as the only feasible way of putting his special training to good use.

In May of 1962 UDC again reviewed the possibility of establishing a glass factory. The problem was still the same - too small a market.

Henry B. Thomas

Case 2

Mr. E. G. K. - Textile Weaving

The case of Mr. E. G. K. is interesting in that it touches on the problems of fostering cottage industries. It also is another example of the need for more careful selection of trades qualified Ugandans sent abroad to study.

Mr. K., a Muganda, had attended Kings College, Budo, (one of the top ranking secondary schools in Uganda) before being sent to India. However, he failed to earn his Cambridge School Certificate while there. The reason why is unknown. He did obtain a diploma from West Bengal College of Textile Technology after five years of study. It is not clear whether the Protectorate or the Kabaka's Government sponsored him. However, it was the Protectorate Government's Ministry of Commerce and Industry who introduced Mr. K. to UDC in Dec., 1960. He was then 32 years old.

Mr. K., on his return from India, had applied for a job to the Nyanza Textile Industries Ltd. (Nytil), a wholly owned subsidiary of UDC. Nytil was the only textile plant in Uganda. Nytil, however, had not hired him and the Ministry wondered if UDC could not help Mr. K. in finding suitable employment.

Inquiries to Nytil indicated that Mr. K. was not very knowledgeable technically (Nytil's factory was fully automated and very modern) and therefore would have to start at the bottom with most of the other new employees in order to learn the business. His training had evidently been in a much less sophisticated technology. Here pay was relatively poor, especially for a man with overseas training, even if inappropriate. Also, Nytil

informed UDC that it felt that that, due to his personality, Mr. K. was unlikely to advance rapidly. Nytil was willing to employ him but Mr. K. would not accept the prospect of working up through the ranks.

During this time, and for some time before, UDC had been studying the possibilities of setting up and otherwise generally encouraging the establishment of cottage industries in a number of fields. Weaving was one of these. It appeared that Mr. K. could assist in these efforts and so it was decided to offer Mr. K. a position as consultant in a small textile weaving unit project. Pay would be £20 a month with the prospect, if the project went ahead, of a permanent job with the unit. The initial tenure would be for two months. Following a discussion with Mr. K. in April, 1961, during which his prospects at Nytil were discussed, Mr. K. accepted this position.

There are essentially two stages to textile weaving. The first involves spinning raw cotton into yard or thread. The second stage is weaving the yard or thread into cloth. It was envisaged that a cottage industry would only undertake the second stage, purchasing their raw material from importers or local manufacturers.

Enquiries had been made to the Indian Assistant Commissioner and others with textile contacts in India about information on weaving with small manufacturing units of either hand or power looms made in India. It should be noted that India had had much experience in this field especially. Various schemes were received. One involved a central weaving preparatory station to service 250 looms spread about the country in groups of 2 or 3. Another noted that the starting of a small power loom

factory with only 2 or 3 looms was not considered economical or advisable.

It went on to suggest the setting up of "a few fly-shuttles and semi-automatic looms to produce table cloths, napkins, bed sheets, etc."

In a progress report UDC noted that the Nytil factory had originally been planned to produce sales yarn which would be sold to such small producers. However, there proved to be no demand so Nytil installed additional looms to weave it into cloth. If sufficient looms were set up in the country, Nytil could again consider producing sales yarn. However, in a plant the size of Nytil's (production, in 1960, was approximately 15 million yards of textiles), balanced production was essential to profitable operation. Therefore such an innovation would have to be phased carefully.

The consideration of this project continued through 1961 and into 1962. During this time Mr. K. was no doubt of some assistance though there is no record of his formal participation. In May, 1962, it was decided that hand looms were uneconomical, being useful in producing only specialized types of cloths. Also, their operation depended on well trained workers.

This project was put aside. The following quotation from a report to the Ministry of Commerce and Industry from the Chairman of UDC describes the basic problem.

Doubt has been expressed respecting the extent to which cottage industries might flourish here because you are well aware that apart from a bit of pottery and basket weaving, home or cottage industries are as yet foreign to the people. The average housewife does not even make her children's clothes or even sew on a button and it is not traditional for the people, as yet, to make any form of cloth. They certainly lack experience and tuition would be necessary.

With the failure of this project to materialize, Mr. K. resigned himself to having to start at the bottom at Nytil and accepted employment there.

Henry B. Thomas

Case 3

Dr. E. M. K. M. - Soap Manufacture

In June of 1959 Dr. E. M. K. M. approached UDC for financial assistance in expanding his soap manufacturing venture. Dr. M. had established this cottage industry as a sideline to his normal and evidently successful medical practice. However it appeared that he was unable to provide it with enough capital to set it up on economical lines. His initial letter to UDC read as follows:

I beg to apply for financial assistance to develop my small soap works at Mutundwe, Gombolola or Omukulu we Kibuga.

I started making soaps as a cottage industry only a month ago. And, at the present time, I am getting all my requirements from local firms. The price of Coconut oil and the rest is too high for a small soap works like mine.

At present, the price of coconut oil in the bazaar is 55/- per tin of 36 lbs. and that of cottonseed oil has greatly risen. The cost of production of a good quality yellow soap is round 1/65 to 1/70 a bar of 2 lbs.

If I could buy the oil from Mombasa the price of a tin of 36 lbs. would be 41/- to 42/-. Railway and insurance expences would bring it to 45/-, thus making a saving of about 10/- per tin, or 110/- per Big Drum. At that rate, my production costs would fall by as much as -/25 per one bar of soap weighing 2 lbs. The fall of -/25 in production costs would be reflected in the gross profit made at the prevailing market prices.

There is a great demand for a good quality soap, and things being equal there is all the possibility of maintaining the current prices for soap in Uganda.

The Loan I am asking for is for 10 years. And my requirements are as follows:

Item I. Raw Materials

Coconut Oil 40 drums per month	30,000/-
Cottonseed Oil 56 drums per month	20,000/-

Item II. Distribution

One Peogout pick-up (second-hand)	13,000/-
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Item III. Improvement of Workshop

15,000/-

Item IV. Water Supply A Borehole supply

15,000/- (provisional)

Total required	100,000/-
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(sgnd.)

In July an executive of UDC visited the factory and shortly thereafter held a meeting with Dr. M. The factory was located next to his house and consisted of a small crude corrugated iron and pole building. It produced two grades of semi-boiled soap, a white soap and a blue mottled soap. The white soap appeared to be of very good quality though the other was indifferent. The boiling took place in the open, the building being used for storage of raw materials and finished soap and other operations such as cutting, stamping, and wrapping.

It was fairly apparent that his troubles stemmed from two factors:

(1) he was buying his raw materials in small quantities and only when needed, thus incurring high material costs and frequent labor idleness when materials ran out and (2) his formula was too expensive, incorporating far too much coconut oil. Table I presents Dr. M.'s formula.

TABLE I

Dr. M.'s Formula for Soap Production

<u>Raw Materials</u>	<u>Parts by Weight</u>
Coconut Oil	5
Cottonseed Oil	8
Caustic Soda	2.5
Sodium Silicate	3

Table II, based on information provided by Dr. M. as to the raw material prices he was paying, indicates that the factory was operating at a loss.

TABLE II

Production Costs at Prices Presently Paid

<u>Raw Materials</u>	<u>shs.</u>	(Based on 2,000 lbs. finished soap)
540 lbs. Coconut Oil at 55/- per 36 lbs.	825	
865 lbs. Cottonseed oil at 350/- per 396 lbs.	765	
270 lbs. Caustic soda " 345/- " 600 lbs.	155	
325 lbs. Sodium silicate at 18.5 cents per lb.	60	
	<u>1,805</u>	

Labor shs.

1 Soapmaker at 500/- per month (=33,000 lbs. soap)	30
1 Assistant at 400/- per month	24
2 Laborers at 300/- per month	18
	<u>72</u>

Fuel

Wood	<u>10</u>
Total	<u>1,887</u>

Production cost per lb. is therefore	94.35 cents
Dr. M.'s wholesale selling price per lb.	<u>83.33</u>
LOSS	11.02 cents per lb.

The above loss of 11.02 cents per lb. is before taking into account the cost of wrapping, transport and sundry expenses.

Table III is based on the same formula but on prices obtaining for bulk purchases of raw materials. It indicates only a small profit margin at best.

TABLE III
Production Costs at Improved Prices
(Based on 2,000 lbs finished soap)

<u>Raw Material</u>	<u>shs.</u>
540 lbs. coconut oil at 45/- per 36 lbs.	675
865 lbs. cottonseed oil at 26/- per 36 lbs.	625
270 lbs. caustic soda at £58 per ton	140
325 lbs. sodium silicate at 18.5 cents per lb.	60
	<u>1,500</u>
Labor (as before)	72
Fuel (as before)	10
TOTAL	<u>1,582</u>
Production cost per lb. is therefore	79.10 cents
Wholesale selling price	<u>83.33</u>
PROFIT	4.23 cents per lb.

The above profit of 4.23 cents per lb. of soap assumes two boilings per day for 25 days per month. It will be reduced, or even disappear, by wrapping, transport and sundry expenses. Nothing is allowed for the Proprietor's work on the selling side.

A study of his books produced no useful information as to profit and loss as they were kept purely on a cash basis. There were no records of stocks or usage of raw materials.

Dr. M. claimed that his production was selling quite easily in spite of the fact that his present wholesale price of 83.33 EA cents per lb. was in excess of competing soaps of the same apparent quality. (A representative price was 76.77 EA cents per lb.) This may have been due to certain abnormal trading conditions prevalent at this time which could not be expected to continue. It was pointed out to Dr. M. that he could expect hard competition from oil mills, who were more or less forced to make soap from their secondary products, especially if he substantially increased his production.

UDC was impressed with Dr. M.'s enterprise in starting up this subsidiary business, especially with so small an expenditure. It wanted to help him if it could. It appeared that the first step was not the injection of more capital but the development of a more economical formula. It was agreed with Dr. M., therefore, that UDC's Technical Department and Laboratory (TD&L) would be asked to suggest such a formula for a white soap which would, as far as possible, retain the appearance of the present product. Dr. M. agreed to pay a small fee of 5 guineas for this service.

The second step would be the purchase of raw materials in larger quantities to effect a reduction in their costs. Questions like the acquisition of a vehicle, workshop improvement, and provision of a water supply could be deferred until it was shown that a much cheaper soap could be made and sold.

TD&L was therefore requested to provide a formula for a boiled soap to sell at about 75 EA cents per pound wholesale. To this end a chemical engineer from TD&L visited the factory in August to study the present operation. His report mentioned among other things that he had found "complete chaos" in the factory. No one had any idea of what was going in or coming out, there were no scales for weighing raw materials, etc. Nevertheless, by September a new formula had been developed, the cost being estimated at 62.5 EA cents per pound. Dr. M. was invited to visit TD&L to discuss its use.

Meanwhile UDC had been studying means by which Dr. M. could be given financial help. The security he had offered had been in the form of Mailo land, a term that is applied to certain lands in Uganda which could only be owned by Africans or by a few bodies especially designated by the Government. UDC was not one of these bodies and therefore could not accept Mailo land as security. However, the Uganda Credit and Savings Bank was such a body. Approaches to them indicated that they could consider lending between £1,250 and £1,500 against the land in question, the final sum depending on an appraisal. Dr. M. could probably purchase a car on hire-purchase terms. He also had some funds which he could put up, a UDC requirement in this case should it lend him money.

In any case, a loan would be dependent on the successful change over to the new formula. TD&L personnel visited the factory several times at Dr. M.'s request to iron out production difficulties. After the last visit, TD&L wrote UDC that it "had the impression that Dr. M.'s soapmaker knows very well what to do with this formula but is reluctant to carry out any new

ideas because it means slightly more work." UDC had already written to Dr. M. that it was worried about the number of employees and the lack of supervision exercised over them. It pointed out that the labor situation must improve before UDC could help financially.

Early in December, following TD&L's final visit, UDC reluctantly decided that there was little point in pursuing the project further. It pointed out to Dr. M. that the main problem was the soapmaker's not following advice. However, as Dr. M. was unable to provide direct full-time supervision and control due to his medical practice, the soapmaker was effectively in charge of the factory. As no improvement in this unworkable situation was being made, there appeared to be no way that UDC could give further assistance. It therefore submitted its bill for shs. 500/-, a nominal sum for the various visits, technical advice, and new formula.

In January, 1960, Dr. M. called UDC to say that he was producing a new type of soap which was very popular and cost only 50EA cents to make. He provided a sample and requested TD&L's comments. They did not run a detailed analysis due to the expense involved but did comment that the new soap apparently contained considerable coconut oil. They could not help but doubt the stated cost of 50 cents per pound. These comments were passed on to Dr. M.

No further word was received from Dr. M. Therefore this last exchange effectively closed the project. The only matter outstanding was the shs. 500/- due from Dr. M. After several reminders, a registered letter was sent to him in May. This was returned unopened. Attempts were made to get in personal contact with Dr. M. during the rest of 1960 but with no success.

Though the sum was quite nominal, there appeared to be no reason why a person of Dr. M.'s standing should be allowed to ignore the debt. If he were allowed to, a dangerous precedent might be set up. Therefore the Corporation in December requested its lawyers to send a strongly worded letter to Dr. M. This letter also received no reply.

The UDC was loath to enter into legal proceedings over such a small sum. Besides the publicity would not be helpful to its work. Luckily a last attempt to see Dr. M. was successful and payment was made. This project was then declared closed.

A note on the file is indicative of the basic problem. "The fact that Dr. M. chose to ignore our advice and continue to manufacture and sell for shs. 2/- per bar a soap which we demonstrated to be costing him shs. 2/50 is immaterial. He overcame this minor defect by charging the same customers extra for their medical treatment and injections, a profitable and ingenious system which I had not come across previously!"

Henry B. Thomas

Case 4

Mr. C. W. N. - Carpentry Shop

In November of 1959 Mr. C. W. N. and his partner, Mr. J. K., met with UDC executives to discuss their carpentry business. Mr. N. was a qualified carpentry instructor who for three years had taught carpentry at the Buganda Government's Technical School in Masaka. He had left the school a year before to set up his own business as a furniture maker. Mr. K. was also a qualified carpenter, having graduated from the St. Joseph's Technical School in Kisubi.

The two had been running a furniture shop at Kireka on the Jinja Road. They had some hand tools and a 12" surface planing machine. They had paid shs. 4200/- for this machine which they estimated now to be worth about shs. 3000/-.

Business at their present site was not good due to competing establishments being located nearby. Their plan was to move their business to Masaka where there was no one at present engaged in making good furniture. However, they had no money of their own and their families, a fairly common source of help, could not help "due to some family mishaps." They were therefore applying for a loan of shs. 4000/- which would be used as follows:

purchase of a band saw	shs. 2250/-
provision of electricity	1000/-
transportation & installation of electricity	750/-

The partners had already rented a shop at Masaka and found a supplier who was willing to sell them timber on credit.

The technical qualifications of the two men were impressive, as was their drive and initiative. UDC decided that they should be helped. A local bank which specialized in hire-purchase terms was approached and it agreed to finance the band saw if UDC gave a guarantee covering repayment. UDC contacted the Uganda Electricity Board (UEB) regarding the provision of electricity and wiring at the new shop. It was learned that the provision of a three phase supply would cost shs. 300/- and that a deposit of shs. 100/- would be required. UEB did not handle interior wiring. UDC would loan Mr. N. the other sums needed, using the existing tools and machinery as security.

These arrangements were discussed with Mr. N. who agreed to them. He, of course, was anxious to get relocated and back in business. The UEB was told to go ahead with the provision of electricity, billing UDC. Mr. N. contacted a local contractor who would do the interior wiring for about shs. 800/-. The band saw was purchased through the bank for a total cost to Mr. N. of shs. 4,167,92. This he would pay off over 24 months though he would be allowed to accelerate repayment. Both the band saw and the planing machine were immediately covered by insurance.

By the end of November, 1959, these matters were all settled and Mr. N. relocated and back in business. He owed UDC approximately shs. 1,350/- for the wiring, electricity supply, insurance premium and 1st installment on the band saw. A loan agreement, allowing for accelerated repayment and secured by Mr. N.'s machinery (except the band saw which secured the hire-purchase agreement) was drawn up and executed.

No further word was received about Mr. N. until April, 1960. By this

time he had liquidated his indebtedness to UDC and appeared to be getting on quite well. However, in the middle of April the bank informed UDC that Mr. N.'s April installment was 10 days overdue. UDC executives visited the factory and received the impression that Mr. N.'s business was doing well. They reminded him about the April installment and left with promises that it would be paid promptly.

Again nothing further was heard about Mr. N. until October when the insurance company sent a routine letter to UDC concerning the renewal of the policy. This letter was forwarded to Mr. N. In December another letter was received from the insurance company stating that there had been no reply to the first one. UDC again passed this on to Mr. N., reminding him of his legal obligation under the hire-purchase agreement to keep the machinery insured. A third letter was received from the insurance company in January, 1961 saying that still no premium had been received and asking if the policy should be canceled.

UDC began to get somewhat alarmed and checked with the bank. It turned out that Mr. N. had not paid an installment on the band saw since March, 1960 and the machine had been repossessed in December. UDC should, of course, have been kept informed but through a misunderstanding on the bank's part, had not. The delay in repossessing was evidently due to the fact that before Mr. N. ceased paying his installments he had repaid some shs. 1,650/-, approximately 9 1/2 months in 4 months. The amount outstanding was shs. 2,693/- which included interest charges on amounts in arrears and expenses in connection with repossessing the machine.

UDC informed the insurance company of this fact and asked that the policy be canceled. It wrote to Mr. N. and asked him to call at its offices.

By the end of February UDC had had to conclude that Mr. N.'s business had failed. Mr. N. had disappeared along with his remaining tools and machines and no one knew where he could be located. The bank requested payment from UDC of the balance outstanding, at which time rights in the machine and against Mr. N. would be transferred to UDC. UDC paid this sum and asked the bank to sell the machine if possible. An offer of shs. 900/- for the band saw was received in March, an offer the bank considered reasonable considering the state of the machine. It was sold for this price, UDC thereby losing shs. 1,793/- for its efforts.

Henry B. Thomas

Case 5

Koki Kaolin Mines & Manufacturers

Mr. C. L. M. was the owner of a piece of land some 100 miles southwest of Kampala near Masaka. Located on this land was a large kaolin deposit (sometimes referred to as China Clay, a fine textured, pure clay, consisting chiefly of the mineral kaolinite) which had been surveyed by the Geological Department of the Protectorate Government and found to be of very good quality and quite extensive. Mr. M. was determined to exploit this deposit and to this end formed an unlimited company entitled Koko Kaolin Mines & Manufacturers.

As the deposit was on the surface, the mining operation involved was minimal, consisting merely of digging the kaolin up with picks and shovels and drying it. For most applications it needed no further processing, except separation as to size. This could be done simply by passing it through a large wire sieve.

Mr. M.'s main problem was finding markets for kaolin. In March and April of 1960 he approached the Ministry of Commerce and Industry, the Geological Department, UDC and others for help in locating firms interested in buying kaolin who could help him develop the deposit.

When Mr. M. talked to UDC he knew that kaolin was used as a filler in insecticide dusts but that Kenya, where the only sizable market for such insecticides existed, had its own supply of kaolin. UDC asked its Technical Department and Laboratory (TD&L) if it could suggest other uses that might lead to a local market. They replied that kaolin was also often used as a

filler in soap manufacture. Mr. M. was advised to approach the various soap manufacturers located in Uganda.

Mr. M. tried five such manufacturers during the next 2 weeks but had to report that there seemed to be very little hope for a market in this direction. During May and June UDC asked one or two of its subsidiary companies if they had any use for kaolin. All reported that they had no use for the clay. UDC also approached a large oil company which was planning to set up an insecticide manufacturing branch near Mombasa. Their report was that kaolin deposits were quite common. They pointed out that the economics of low concentrate insecticide dusts were based on taking the concentrate material, which was imported, to the source of the diluent and preparing the low concentrate there. As the final product must then be shipped to consumers, the source of the diluent should be as close to the market as possible. Manufacturing was currently being done in Nairobi, near the center of the existing market, and the railage costs from Uganda would be too high to warrant preparation there.

At the end of June, following the results of this brief marketing survey, UDC had to report to Mr. M. that it did not see how it could help him further. This was unfortunate as Mr. M. was the type of individual UDC would like to help if at all possible. He was a very clever and intelligent man, a neat dresser giving a good general impression to all he met. Not only was he a hard and persevering worker but he had the ability to recognize what his real problems were. Besides this, he had an actual project which he himself had defined. However, nothing could be done.

In the middle of August UDC received a copy of a letter from Mr. M.

addressed to a chemical company located in Nairobi and copies to the other bodies Mr. M. had initially approached for help. The purport of the letter was that Mr. M. found in the chemical company someone who was interested and able to help him develop the deposit and that therefore the other bodies could "call off the search." Mr. M. had worked out an arrangement with the chemical company whereby he would sell, and distribute, and generally promote its insecticides and allied products in Uganda. If he could develop a large enough market in Uganda the company would license Mr. M. to set up a plant in Uganda using Mr. M.'s kaolin. Mr. M. was to have partial use of one of the company's vans in his promotional efforts.

Nothing further was heard from Mr. M. until the end of October when he again wrote UDC. In his letter Mr. M. reported the progress of his promotional campaign. He provided figures to show that there was a market for insecticides among the African farmers if the farmers could be educated to their uses and value. This was not at present being done by the shopkeepers who stocked or could stock insecticides though some government officials were trying. Mr. M. and his helpers had addressed and planned to continue to address cooperative unions and other gatherings of farmers for this purpose. At these meetings insecticides were demonstrated and some sold on the spot. It was Mr. M.'s hope that shopkeepers would stock insecticides when a demand had been built up.

Mr. M. pointed out that part of his agreement with the chemical company was that he should receive a bonus for all sales made in Buganda as a result

of his propaganda campaign. He also mentioned that by this time the chemical company had agreed to send a van to Uganda on a permanent basis but that the van had been wrecked in an accident on the way over. They would be sending another in two or three weeks' time.

Mr. M. then went on to say that he paid cash for his stocks in order to receive wholesale prices and a 5% cash discount. He had sublet a shop in Kampala and felt that in the initial stages he could handle stock worth about shs. 20,000/-. He requested a loan for this amount, to be paid back over a two year period after a moratorium of six months. If the loan were granted, the money would be deposited with a large European-run distributing firm with branch offices in Kampala who were at present holding his stocks and who would undertake to manage Mr. M.'s books and accounts.

Mr. M. also enclosed a letter from one of the larger local soap manufacturers which indicated that they might be interested in buying kaolin from Mr. M. Such purchases could be in 200 ton lots. Mr. M. requested financial assistance to develop his mine so that he might handle such quantities. Detailed costings supported his application for a shs. 20,000/- loan.

Mr. M. also mentioned that he was thinking of the British and American markets. Though the transportation expenses would be high, he felt that the low production costs might offset them. He intended to talk with the U.S. Trade Mission which was due in Kampala shortly. (These talks discouraged Mr. M. from further consideration at foreign markets.)

UDC replied to this letter congratulating Mr. M. on his well prepared estimates and asking him to come to the UDC offices for further discussion.

Before Mr. M. came in, UDC called the local soap manufacturer for further details on their interest in kaolin. It turned out that their interest

was only a possible future one and that they were not in a position at the moment to guarantee purchasing any quantity.

UDC also wrote to the chemical company in Nairobi to ask for their impression of the size of the market, the mine's future, and other similar questions. A representative of the company was in Kampala on other business a few days later and stopped by the UDC offices. During this interview it was learned that the company had advanced Mr. M. shs. 2,000/- worth of 90 day credit for the purchase of their products. This they considered adequate for the moment. Mr. M. would need to acquire a van soon as the company would have to recall theirs. UDC might consider assisting Mr. M. in this. The representative mentioned that his company felt Mr. M. to be a good risk. At the moment there was about £450-500 worth of sales per month in Uganda. Mr. M. was one of three established distributors in Uganda and received 12.5% commission on his sales.

As far as developing the mine went, the company's representative felt that nothing could be done at the present time, the market for kaolin being too small. His company used only about 200 tons a year total. To properly develop the mine, the representative thought, would require about shs. 17,000/-.

Mr. M. was informed of the results of this talk and the inquiry to the soap manufacturer. On the basis of these and what UDC had previously learned, the two applications in his recent letter would have to be turned down. Mr. M. was told that in any case UDC could not have considered the first one as it, as a matter of policy, did not make loans for use in retailing activities.

Late in December UDC received a copy of a letter written by Mr. M. to the Uganda Commission for Cooperative Development. This letter, a long, detailed, well written one, asked the Commission for support in Mr. M.'s campaign. It appeared, therefore, that Mr. M. had resigned himself to having to wait for some time before he could bring his mine into production and that he realized that the best way to shorten this time would be to work to expand the market.

In August, 1961, having had no recent news of Mr. M., UDC wrote to him saying that it was still interested in his progress and asking whether UDC could now help or advice in any way in regard to the mine. The letter mentioned that during the last discussions it was left that Mr. M. was to continue to develop the market, it not being worthwhile at the time to develop the mine.

A prompt reply was received from Mr. M. stating that his marketing program was still going ahead. He was using handbills and posters to advertise insecticides and their merits. His travels had taken him through Mengo and Masaka Districts where he had seen farmers, held meetings and demonstrations with cooperative societies, talked to Buganda and Protectorate Government officials, and generally promoted the sale of insecticides. His letter indicated that he had become very knowledgeable about imports and local manufacture of insecticides, conditions for their beneficial use, history of local crops, etc. It contained a request for a loan of shs. 32,000/- to buy a Land Rover and trailer to assist him in his up-country demonstrations.

As far as the mining side went, he had been selling some kaolin to the chemical company. However, he was having trouble drying his product adequately. This letter, like his others, was very well written and detailed.

Enclosed was a copy of a letter from a sales representative of the distribution company handling his stocks to the chemical company saying that Mr. M.'s team was doing a good job and was working in the right direction. It claimed that there was a large potential market for insecticides. It mentioned that the company's van (which evidently had not yet been withdrawn) kept breaking down with attendant delays and frustrations to Mr. M.'s efforts. This situation evidently prompted Mr. M.'s new application for a loan.

UDC had to reply that Mr. M. rather missed the point in his letter. UDC was interested mainly in the development of the mine, financial assistance to retail ventures being out of its sphere of activities. It went on to ask some rather pointed questions about mining problems and the order position.

Mr. M. replied that he had some orders for kaolin and promises of others. These promises, though, were mostly old ones from the soap manufacturers. He was convinced that he could sell more if he could produce it. This, however, did not jibe with the studies UDC had made. Mr. M. listed three major problems. (1) Orders that did come in were isolated and for only a few tons each. This required a stop and start mining operation which naturally was costly. To solve this Mr. M. wanted to mine 200 tons at one time, moving it all to the end of the track leading into the mine. From

this supply he could more economically fill orders for small quantities.

(2) The access track from the main road to the mine was in very bad shape. It was six miles long and consisted of mud and clay. During the rainy seasons it was all but impassable and even at the best of times a heavy truck found it hard going. (3) A drying shed was needed.

The crux of the problem appeared to still be the market for kaolin. UDC once again set out to survey the current position. It wrote to the chemical company asking what amount they were prepared to buy from Mr. M. and their price. It sent similar letters to the several soap manufacturers.

The chemical company replied that it was taking between 15 and 20 tons per annum from Mr. M. The cost of transporting Mr. M.'s kaolin to Nairobi was what was crippling his mining business. The company only bought what it did for use in expensive insecticides as Mr. M.'s product was the best available in East Africa. For most of the other uses, cheaper sources were available nearby. The company again stated its intention to establish in conjunction with Mr. M. a manufacturing plant in Uganda which would use Mr. M.'s kaolin, but only when the market was large enough to justify the plant outlay. At that time the takeoff from Mr. M.'s mine would increase to possibly as much as 100 or 200 tons per annum. The company reiterated that it was anxious to encourage Mr. M. in every way possible.

The soap manufacturers in their replies were not at all encouraging, one stating that he was no longer using kaolin, instead making a better product without a kaolin filler.

UDC again decided that it must wait before any useful help could be given to Mr. M. in bringing his mine into production. In any case, it appeared that the chemical company would be willing to supply most of the help when the time came. This would be more appropriate as not only was it a private concern but also one possessed of the technical knowledge required.

Henry B. Thomas

Case 6

Mr. S. K. B. - Newspaper Publishing

In March of 1959 Mr. S. K. B. was introduced to UDC by a personal friend of the Chairman. The letter indicated that Mr. B. would like financial assistance in setting up a shop to print his vernacular newspaper which was now being printed at other presses. Mr. B. had had experience in newspaper publishing and had located a second-hand press which he could purchase for shs. 3,000/-. Included with the letter were some costings which indicated that the size of the loan to be requested was shs. 15,000/-. UDC wrote to Mr. B. requesting that he come to its offices for a discussion about his project.

At this initial meeting Mr. B. explained in detail his scheme for the launching of a vernacular newspaper in the Western Province, initially to be printed in Kampala. He presented the estimates of revenue and expenditure as well as capital costs. These were retained by UDC for further study.

Mr. B. also claimed that two of his friends, prominent members of the community, had expressed an interest in the project. UDC requested Mr. B. to find out from these gentlemen whether their interest was sufficiently keen for them to put any money into the scheme.

During April and May Mr. B.'s project was studied and further meetings with him held. Legal advice was sought concerning UDC's liability, if any, in lending money to a newspaper over whose editorial comments it had no control. The lawyers' views were satisfactory. An outside opinion on the machinery Mr. B. wished to purchase was favorable.

Mr. B.'s two friends, while they strongly supported the scheme, maintained that they had no spare cash to invest. Good reports were received on Mr. B.'s past work as a journalist and on his work as an established and successful English language newspaper.

In June, as a result of these enquiries and studies, Mr. B. was offered a loan of shs. 16,000/- on the following conditions:

1) The money was to be used as follows:

a) purchase of a cylinder printing machine

and hand-set types	6,500/-
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b) purchase of composing room furniture	4,000/-
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c) and a proof machine	4,000/-
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d) installation of machinery	1,500/-
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e) initial working capital	4,000/-
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2) Security would be a Bill of Sale over all machinery

and equipment.

3) All machinery and equipment were to be properly insured.

4) Repayment was to be at the rate of shs. 400/- per month
commencing, after a three month moratorium, November 1, 1959.

5) Interest was to be at 7% per annum.

6) Mr. B. was to provide UDC with such statistics as it requested;
UDC would advise Mr. B. initially on the most satisfactory
accounting procedures.

Mr. B. accepted these terms and conditions and within a week had purchased the printing press, sending the invoice to UDC to be paid. He also requested cash to pay for transporting the machine to its new location,

for account books and for other purchases. UDC paid the invoice and advanced Mr. B. shs. 8,000/- to cover the other expenses.

In the middle of August UDC wrote to Mr. B. noting that it had received no reports on his progress since the loan and requesting him to call in at its offices in order to bring it up to date. It also requested information on the machinery purchased such as the make, value, serial numbers, etc. This letter had to be repeated early in November as UDC had not heard from Mr. B. Mr. B. replied to this second letter saying that he was just about to leave for the Western Province on a business trip and that he would call in when he got back, perhaps the next week.

In the middle of December Mr. B. wrote to UDC and gave it details of the printing press, for which he had paid shs. 3,000/-. He also mentioned that he had acquired three other items of machinery but gave no details other than that they were worth shs. 9,000/-. UDC wrote back requesting further details of these other items as they had to be included in the Bill of Sale which was in the process of being prepared. This information was forwarded early in January, 1960.

In the first week of February UDC sent to Mr. B. its usual notice that his monthly payment of shs. 400/- was due. This notice also pointed out that the payments for December and January together with interest from December had not been paid. By this time the entire shs. 16,000/- had been loaned to Mr. B.

Towards the end of February UDC again wrote to Mr. B. asking him to call in to complete the Bill of Sale. It pointed out that he had not yet made the payments that were overdue and had sent in no statistics as to the progress of the business. It asked Mr. B. if the machinery had been insured.

At the end of March Mr. B. replied apologizing for his delay in answering UDC's letter but explaining that he was away from his office most of the time organizing his sales agents up-country. He mentioned that he was having a good deal of trouble in this respect as reliable agents were hard to find. He closed by promising to come in to finish the Bill of Sale the next week. This he did.

By the middle of May Mr. B. had still made no repayments on his loan other than the first one. Shs. 2,400/- were therefore outstanding as well as some shs. 560/- in interest since December, 1959. UDC executives had visited Mr. B.'s office several times only to find him away. A letter was written to Mr. B. pointing out that he had never replied to UDC's letters or to messages left at his office. It again reminded him of the outstanding loan installments. It mentioned that UDC had been kept entirely in the dark on the progress of the business. It closed by saying that if Mr. B. did not come into the UDC offices within a week, UDC would have to ask its lawyers to act.

Mr. B. did not call within the allotted week. However, UDC was reluctant to foreclose unless this proved to be absolutely necessary. Finally, in July, Mr. B. got in touch with UDC and an appointment was made for two UDC executives to visit his plant and offices.

This visit proved to be most illuminating. Mr. B. was waiting outside his office when the executives arrived but did not have the key to the door. This was with someone else who he claimed would probably not come in that day. The door was opened, however, through other means. Once inside the building it was apparent immediately that the business had ceased operations

some time before. Books and equipment were scattered about the premises. When asked, Mr. B. was unable to produce certain books or machines. What account books were produced had been very poorly kept. Very little information regarding the expenditure of the loan money or how his business had done when it was running could be found. Entries in the books appeared to stop in August, 1959.

Most of the machines, furniture and office equipment proved to be either lost, broken or never bought in the first place. Only two large machines were found, the proof machine which appeared to be in good condition and the printing machine which was lying unattended at another, established printing company nearby from whom it had been originally purchased. Part of this machine was inside their building, part outside in the yard, uncovered and neglected.

It was soon learned from the manager of this second printing company that Mr. B. had never attempted to move this press from their premises after he had bought it, though they had repeatedly requested him to as it was in their way.

At the termination of this visit Mr. B. was told to produce his bank statements at the UDC offices within a week, these being the only reliable accounting evidence apparently available.

As this was not done, in August UDC was finally forced to ask its lawyers to give seven days' notice to Mr. B. to appear at the UDC offices or it would foreclose on the Bill of Sale. Mr. B. replied to this letter by telling of his troubles with competitors, sales staff, etc., and saying

that friends and relations were trying to lease some of their land to a tea company to help him pay off the loan. He requested more time.

UDC decided that time was not what Mr. B. really needed and asked its lawyers to foreclose and repossess what machinery was left. The case was closed.

Henry B. Thomas

Premier African Engineering Works

Early in February, 1957, UDC received a letter from a Mr. E. N. The letter was somewhat unclear as to its purpose, though obviously Mr. N. was applying for financial assistance of some sort. He wrote that he had graduated from the Kampala Technical Institute (KTI) 18 years before, having taken a machine training course. He had been employed in the central workshop of the Public Works Department (PWD) in Kampala. He now wanted to purchase some machines on hire-purchase terms, stressing "Not for cash." He had only a little money himself which he was using to send his children to school. He had no security of any kind to offer. UDC wrote back inquiring what it was exactly that Mr. N. desired.

By the end of February Mr. N. had replied that he wanted a cylinder boring machine and a valve grinder. He estimated that these would cost between shs. 8,000/- and shs. 9,000/- total. UDC asked him to come in for an interview to discuss his plans. This he did in March. He explained that he wanted to set up his own shop for repairing and overhauling motor vehicle engines. After this interview he was told that his application might take some time to study and that he would hear from UDC in due course.

During his interview Mr. N. had stated that he had worked for the East African Railways & Harbours after leaving KTI. He next went to the PWD, having left them a short time before writing to UDC to work in the motor division of a large importing and selling firm. His present employers were contacted and they gave reasonably good reports of his ability as a motor

mechanic. They did mention, though, that he was leaving their employ at the end of April as he was apparently very "African Conscious" and had proved to be a somewhat unsettling influence in the workshops. This, of course, would have little effect in his own business.

This firm when told of Mr. N.'s plans, felt that he would need more equipment than he had indicated, costing nearer to shs. 16,000/- than shs. 8-9,000/-. Further inquiries were made regarding the amount and type of equipment Mr. N. would need to set up his own motor repair shop. These led UDC to request Mr. N. to come in for another interview. This was held late in April.

Mr. N. admitted that he would need more equipment than he had at first asked for but he said that he had only asked for the major items as he was not hopeful of even getting them. He agreed to draw up a complete list of what he felt he would need as well as a statement of estimated revenue and expenditure. Mr. N. also said that he had shs. 2,000/- he was able to invest in the new business.

Mr. N. submitted his new list of equipment and the statement (Tables I and II) during May and UDC had several experts study the list. They reported that they considered it complete and reasonable. As the sum of money now involved was considerable, it was necessary to seek approval from the Board of Directors. A memorandum was prepared early in June detailing all the important facts and considerations. It was recommended that a loan not to exceed shs. 30,000/- be granted. This larger sum would allow a little leeway should Mr. N.'s estimates of revenue and expenditure prove to be too low. Interest would be at 6% per annum charged monthly

on the outstanding balance. Repayment would be at a minimum rate of shs. 600/- per month, commencing 3 months after the start of the business (a date UDC would set). Security would be a Bill of Sale over all the assets. Mr. N.'s contribution of shs. 2,000/- would be used as initial working capital.

The memorandum went on to say that Mr. N. had been earning approximately shs. 800/- monthly on his own account after leaving his last job. He had an option on suitable premises for his new business at Ndeba, near Kampala on the Masaka Road. It was noted in the memorandum that if Mr. N. were successful, he could be expected to be very vocal in publicizing UDC's assistance.

While generally approving the proposal, several members of the Board felt that such a loan as this should more appropriately come from the African Loan Fund administered by the Uganda Credit & Savings Bank (UC&SB). (This Fund had been set up by the Government from surpluses and augmented the Bank's own funds). If an application to them was not successful, the Board would reconsider the proposal. Mr. N. was informed of this decision and he agreed to submit his application to the UC&SB. UDC assisted him in filling out the forms.

The African Loan Fund was set up specifically for use in cases where the applicant could offer little or no security. Instead, the African Local Government under which the applicant lived guaranteed 50% of the loan. This guarantee involved obtaining the signatures of various chiefs at different levels in the African Local Government. As might be expected, this was a time consuming job and usually it was 3 or 4 months before a decision from the bank could be expected.

Mr. N.'s application was completed late in June and requested a loan of shs. 28,000/- for three years. Its details were similar to the application to UDC. Before it could be submitted to the bank, however, Mr. N. had to personally get the signatures of his Gombolola and Saza Chiefs. Almost immediately he ran into trouble. Though Mr. N.'s home was in Buganda, he was not a Muganda, being instead a Munyoro. These two tribes historically had gotten on poorly with each other. Now Mr. N. was finding that the Buganda chiefs would not support his application.

He reported this problem to UDC who asked the Assistant Resident in Buganda to help by bringing pressure on the chiefs. This representative of the Protectorate Government agreed to try. A month and a half later, though, in the middle of August, he had to admit defeat. He too was unable to get the chiefs to sign up. In returning the uncompleted application form he mentioned that it was his understanding that the UC&SB would be unlikely to approve the loan in any case. The African Loan Fund was used primarily for retail shop buildings, not machinery.

UDC resubmitted Mr. N.'s application to the Board of Directors and by the middle of September was able to tell Mr. N. that approval had been granted. The terms of the loan were the same as originally recommended. UDC suggested that Mr. N. immediately get a lease for the site on the Masaka Road and request the Uganda Electricity Board to connect power lines. Mr. N. was reminded that he had to comply with the provisions of the Factories Ordinance in setting up his shop.

UDC and Mr. N. would jointly approach suppliers for the purchase of the required equipment and UDC would inquire about insurance. It was

suggested that Mr. N. operate his business purely on a cash basis as far as possible as the business clearly could not afford to run the risk of bad debts. Besides, accounting procedures would be simpler. UDC offered to draw up a simple bookkeeping system.

Mr. N. had suggested that he run an advertising campaign to make his new shop known. UDC agreed that in due course it might be helpful to run ads in the English and vernacular press but that for the moment this would be extravagant. To begin with it would be better to merely circularize organizations which operated large motor pools and to generally rely on word of mouth among his friends and customers.

At the end of September, 1957, Mr. N. signed a five year lease for four rooms in Ndeba, two miles from Kampala. Rental would be shs. 200/- a month with the first six months paid in advance. Mr. N. would pay for the cost of connecting the premises to electric power lines though this cost would be deducted from subsequent rental payments. Mr. N. would bear the full costs of internal wiring.

A bank account was opened with Mr. N. as sole signatory. The business was registered with the Registrar of Companies as "Premier African Engineering Works."

During October, November, and December machinery was purchased. By the 20th of December shs. 24,000 had been loaned. A list of these expenditures as well as cash advances to Mr. N. appears in Table III. It was decided that the starting date of the business would be the first of December, the first loan repayment therefore being due the first of March, 1958.

The first accounts appeared for January, 1958. (Monthly accounts as prepared by Mr. N. for January through November, 1958, appear in Table IV.) These indicated a profit of shs. 542/24. However, accounts for February and March indicated a loss. Mr. N. claimed that he had little business, blaming this on "the current economic conditions of low trade." Towards the end of February he requested an additional advance of shs. 2,000/- to help him over this period. This was paid into his bank, bringing the total loan outstanding to shs. 26,000/-.

In the following months the business continued to operate at a loss. At the end of July, 1958, Mr. N. wrote to UDC that he was "getting disturbed about my business and as the Corporation has a financial interest in it, I feel it is my obligation to disclose my difficulties to you." He claimed that for the past five months he had had little business and therefore had not earned the income originally estimated. He was finding it hard to repay the loan at the agreed rate of shs. 600/- per month. "I am, however, trying to pay the interest." He closed by asking for advice.

UDC had a discussion with Mr. N. and it was agreed that the only help UDC could offer was in getting Mr. N. more widely known. To this end, it contacted various people of all races who might be able to use Mr. N.'s services or inform others of them. These efforts did not meet with much success, however, as the accounts show.

In January of 1959 Mr. N. met with UDC executives to again discuss his problems. He felt that had he a break-down truck he could gain more business. Competing garages often had such equipment, even though they usually did not have the variety of machinery Mr. N. had to use in dealing

with the failure. UDC agreed to advance him shs. 3,000/- with which to purchase a second-hand truck

In November, 1959, UDC wrote to Mr. N. apologizing for the fact that it had not been able to see him for some time and asking him to come in to its offices for a discussion when it was convenient. It noted that interest on the loan had been accruing for some time and that there had been no capital repayments "for some considerable time." This request was not heeded and UDC wrote again in December.

Mr. N. replied to this letter that he had been unable to meet the interest or capital repayments due to the extremely poor business he had been doing. He noted that his rent had been in arrears for four months. He blamed the trade boycott for his lack of customers over the past four months. (The trade boycott was organized by a politically oriented group of Africans against the Asian traders and any others who dealt with them. It started early in 1959 and ran for most of the year. It proved to be extremely effective, even if illegal, and ruined many Asian businessmen. It is not clear how Mr. N. could have been so ruinously affected; perhaps he dealt with Asian suppliers or repaired vehicles belonging to Asians as well as Africans. His tribal affiliations might have had something to do with it).

Mr. N. also reported that he had had an accident with his truck, involving a fine of shs. 750/-. "And after all, my credit with my Banker left me no good figure and I am financially cut off a pocket." He closed by requesting an extension of the "recovery period."

Meanwhile the insurance company had notified UDC that the premium of shs. 354/25 to cover 1960 was due and requested payment. This letter, as in previous years, was passed to Mr. N. for handling. However, he pleaded inability to cover the amount and asked UDC to help him. UDC refused, saying that it was his responsibility. Mr. N. eventually came forward with shs. 200/-, promising to send the rest later. This he never was able to do and UDC was forced to pay the remainder.

By May of 1960 Mr. N. had fallen far behind in both interest and capital repayments on his loan. UDC executives visited his workshop to see what, if anything, could be done. They received the impression that there was no work coming in at all. There was no activity in the shop which was spotlessly clean. They found all the machinery in good repair. The truck had been sold for shs. 1,000/- as it was doing no good. It was suggested that perhaps Mr. N. might consider moving to another location where business was better. The problem here was that many up-country towns did not have the electrical facilities necessary to operate the machines.

In July, 1960 Mr. N. forwarded a token payment to UDC of shs. 250/- under cover of a letter in which he again expounded on his problems. This letter is quoted in its entirety below.

19 July, 1960

Dear Sirs:

I have been operating a small garage service for some time now on a loan given to me by you and I feel I should let you know my experience and the reasons I have not been able to repay the loan at the agreed rate.

ENGINE RECONDITIONING

The revenue from this source was close to my original estimate during the few months after I had started operating. This situation, however, did not last long. A trade recession followed and also the P.W.D. adopted a policy of selling their old motor engines. Instead of bringing their engines for reconditioning, my customers bought used engines from the P.W.D. and fitted them in their buses and lorries. The engines were very cheap and very economical to run. The effect was that revenue from reconditioning was seriously cut off and now it is very much below my estimate.

GENERAL MAINTENANCE

With the trade recession in the last two years and the recent trade boycott, there has been relatively few vehicles for general maintenance in African owned garages. During the boycott months a number of African mechanics lost their jobs in the big garages and came to set up garages on their own. As a result, there are now many small garages competing for slightly reduced business. The effect has been to charge very low rates and in many cases the mechanics go out with their tools and carry out general repairs in car parks, on the roads, and sometimes in the homes of vehicle owners. They have no overhead costs and as such they can afford

to charge low rates. Secondly, they have no valuable machinery in their workshops to look after and therefore they can always afford to keep away from their garages.

STAFF

I had four mechanics in my workshop but these also went to set up on their own and offered extremely low rates to my old customers who, quite naturally, took business to them. When I installed a telephone, I managed to communicate with some of my old customers and quoted new rates to them. I succeeded to get some business this way. At the moment I have not got really good staff.

BATTERY CHARGING

There has been some revenue from this source which has been sufficient to pay for the rent, electricity, wages for the watchman and casual labour and a living for myself.

At the moment I am only maintaining the garage and hope the business will be forthcoming. This then is the situation at the moment and I shall be very pleased to know your comments on it.

(sgnd)

UDC responded by asking Mr. N. to come in for a discussion. This he did in August. The result of this meeting was the suggestion that he circularize government departments and other organizations operating many vehicles, explaining his facilities and available services.

This effort again was evidently not very successful for in October Mr. N. received a final notice from his landlord that unless he paid back

rent (eight months' worth) within a month the landlord would bring civil action. Mr. N. wrote to UDC: "My business has proved a total failure and as such I have not hope of getting that money. Now I am seeking your advice about this matter."

Mr. N. met with UDC shortly thereafter and it was decided that the wisest move would be to relocate in another town where there was less competition. Hoima was suggested. This town had the advantage that it was located in his tribal area. As there was no electricity there, it was decided that only the non-electrical machines should be moved, the others to be sold to liquidate Mr. N.'s indebtedness to his landlord and other minor creditors, whatever being left over to revert to UDC.

After this meeting, UDC wrote to the Superintendent of Works in the Bunyoro Kingdom Government to inquire about the merits of setting Mr. N. up in Hoima. Questions were put as to whether sufficient demand to support a well equipped garage and whether the Bunyoro Government would consider contracting with Mr. N. for the servicing of their vehicles.

The reply was generally favorable, though the Bunyoro Government could not consider a contract until after the business was established. Such a move, though, could not occur until a plot of land had been assigned, a building erected, etc.

Late in February, 1961, UDC learned that Mr. N. had sold the valve refacing machine to an Asian in Masaka. It wrote to Mr. N. saying that such sales as this, without UDC's knowledge or consent, had to stop as all the machinery was covered by the Bill of Sale held by UDC. It

requested Mr. N. to submit full details of this sale, including an accounting of the money he received.

Earlier, in December, the insurance company had sent its normal letter announcing that the premium for the coming year was due. UDC had forwarded their letter to Mr. N. He, however, evidently had done nothing about it as the insurance company wrote again in February and in March. Each time UDC reminded Mr. N. He finally wrote back in April that his intention had been to send "a reasonable amount of money as part payment but due to the present state of business I could not raise any appreciable sum." He also noted that he had had to reduce his staff to a night watchman. The insurance company wrote to UDC later in April and this time UDC was again forced to pay the premium.

By May the move to Hoima was possible as well as necessary for the survival of the business. A trucker was found who would transport Mr. N. and his equipment there for shs. 480/-. Mr. N. requested three weeks to pack, saying that he would like to be there by the beginning of June.

Mr. N. had been assigned a plot by the Land Office in Hoima one mile out on the Toro Road. It was located within the Omukama's (King's) Township and outside the Municipal Township area. This was an advantage as the building regulations would be less onerous. The Land Office agreed to assist Mr. N. in drawing up plans for the building and in its construction.

In June UDC agreed to pay shs. 2,000/- for a generator to be installed in Mr. N.'s new workshop as it proved essential that he be

able to operate some of the electrically powered machines. It also had to pay the transportation charges and some other incidental expenses connected with the move as Mr. N. was quite impecunious.

As Hoima was a good distance from Kampala, UDC was unable to keep even the sporadic eye it had kept on Mr. N.'s affairs. Mr. N. rarely reported on the state of his business and did not resume interest or capital repayments on his loan. When once again the insurance company began writing concerning the premium for 1962 and Mr. N. failed to reply, UDC was forced to travel to Hoima for a visit. This occurred in April, 1962.

It was almost immediately apparent that the business had completely failed. By checking around it was learned that Mr. N., once back among his own tribe, had gotten mixed up in politics and therefore had spent much of his time away from his shop. This absence of supervision meant that his staff failed to perform their tasks properly and customers became dissatisfied. Naturally they took their business elsewhere and Mr. N., with no business, had to close the garage. Once closed, he loaned much of his equipment to other people. A list of equipment that was missing and covered by the Bill of sale was drawn up and appears in Table V. Arrangements were made for the remaining machinery to be repossessed and transported to Kampala.

A letter was written to Mr. N. once the executives returned to Kampala enclosing a copy of the list of missing machinery. He was requested to either make arrangements for their return to Kampala or to refund their cost. Mr. N. never replied to this letter or subsequent ones and UDC, unable to locate him, had to consider the project closed.

Of the original shs. 30,000/- authorized, shs. 29,000/- had been advanced. Of this, shs. 2,550/- were repaid, leaving shs. 26,450/- to be written off. The advances made in connection with the move to Hoima were considered as a separate loan. These totaled shs. 3,112/51, including the cost of transporting the remaining machinery back to Kampala, and also had to be written off. Some of this money was recouped when the repossessed machinery was sold. Mr. N. had evidently paid interest during 1957 and the first part of 1958. From that time forward, however, no interest money had been received.

Henry B. Thomas

TABLE I
LIST OF EQUIPMENT REQUIRED

<u>PARTICULARS</u>	<u>COST</u>
One Van Morman Boring Bar	shs. 7,000/-
One B & D Valve Refacing Machine	
One B & D Valve Seat Refacing Machine	3,270/-
One V/8 Engine Block Stand	350/-
One Test Bed for Engines	250/-
One Lifting Tackle & Rail Carrier	825/-
One Cupboard for tools	100/-
Three Bench Vises	195/-
" Work Benches	300/-
One Paraffine Wash Bath	750/-
One Trolley small	150/-
Complete set of Spanners Ring	520/-
Sockets & Fined, taps & dies drills	1,650/-
Electric Drilling Machine	1,270/-
Electric Cylinder Horning Machine	655/-
Oxygen-Acetylene Welding Plant	651/-
Hydraulic Jacks	949/-
Hand Operating Injector Tester	300/-
One Compression Gauge	150/-
One Cylinder Bore Gauge	388/-

TABLE I cont'd.

<u>PARTICULARS</u>	<u>COST</u>
Micrometers: 0" - 1") 1" - 2") 2" - 3") 3" - 4")	357/-
One Ridge Remover	145/-
One Cylinder Head Stud Remover	50/-
Battery Charging Plant	1,798/-
Press & Puller Kit	400/-
	b/f shs. 22,473/-
Add for installation	c/f shs. 22,473/- 1,527/-
Working Capital - 2 months	shs. 24,000/- 4,000/-
TOTAL	shs. 28,000/-

TABLE II

STATEMENT OF ESTIMATED REVENUE & EXPENDITURE

<u>Income</u>	<u>shs. per month</u>
2 engines per week at average shs. 325 each	2,800
Miscellaneous Work	<u>400</u>
	3,200
<u>Expenditure</u>	
Loan Interest at 6% per annum	120
Own Wages	500
Other Wages (2 mechanics, 1 porter, 1 askari)	1,000
Electricity and Water	40
Rent	200
Office Expenses, Maintenance, etc.	240
Sundry Purchases	<u>100</u>
	2,200
Cash Income	3,200
Less: Expenditure	<u>2,200</u>
Cash Surplus	1,000 per month

TABLE III

PAYMENTS MADE BY UDC UP TO 20th DECEMBER, 1957

<u>Date</u>	<u>Explanation</u>	<u>shs.</u>	<u>shs.</u>
Oct. 7	Cash (internal wiring of premises)	400/-	
	Cheque (6 months advance rent)	1,200/-	
	Cheque (to UEB)	640/-	
10	Cash	750/-	
18	Machinery		4,109/80
"			386/49
"			3,106/50
19	Cash	500/-	
21	Machinery		1,618/20
26	Cash	605/-	
29	Machinery		1,160/-
"			1,550/80
	Cash	550/-	
Nov. 6	Cash	600/-	
12	Cash (to bank)	500/-	
Dec. 3	Cash	700/-	
11	Cash	500/-	
17	Machinery		412/49
"			1,460/-
"			1,713/-
19	Machinery	550/-	
	Cash	517/72	
		8,032/72	15,967/28
<u>TOTAL:</u>		<u>shs. 24,000/00</u>	

TABLE IV

- TRADING RESULTS

(in E. A. shs.)

	<u>Expenditure</u>	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>
Wages	764.00	732.47	909.50	817.70	617.00	470.00	
Rent	150.00	150.00	150.00	150.00	150.00	150.00	
Stationery	22.50	3.30	6.70	1.15	-	-	
General Expenses	4.50	10.00	68.00	26.39	10.50	63.00	
Advertising	100.00	100.00	100.00	100.00	100.00	100.00	
Transport	80.00	80.00	80.00	80.00	80.00	80.00	
Electricity	70.00	70.00	70.00	70.00	70.00	70.00	
Salary	600.00	600.00	600.00	600.00	600.00	600.00	
Repairs & Maintenance	50.00	50.00	50.00	50.00	50.00	60.00	
Interest	120.00	124.00	123.33	123.10	119.34	123.82	
Loan Redemption	200.00	200.00	600.00	600.00	600.00	600.00	
Depreciation	181.26	190.26	190.26	190.26	192.26	192.26	
Insurance	-	-	-	-	-	174.25	
Commission						42.00	
Total Expenditure		<u>2,342.06</u>	<u>2,310.03</u>	<u>2,947.79</u>	<u>2,808.60</u>	<u>2,589.10</u>	<u>2,715.33</u>
<u>REVENUE (net)</u>							
Welding	149.50	41.96	65.50	128.40	21.96	109.00	
Engine Reconditioning	1,383.00	730.00	357.50	1,756.00	552.00	346.00	
General Maintenance	1,044.00	339.30	1,600.45	102.20	666.70	202.15	
Battery Charging	178.00	151.50	88.50	139.40	70.50	50.00	
Misc. Income	130.00						
Total Revenue	<u>2,884.50</u>	<u>1,262.76</u>	<u>2,111.95</u>	<u>2,126.00</u>	<u>1,311.16</u>	<u>707.15</u>	
TOTAL EXPENDITURE	2,342.06	2,310.03	2,947.79	2,808.60	2,589.10	2,715.33	
Less: TOTAL REVENUE	<u>2,884.50</u>	<u>1,262.76</u>	<u>2,111.95</u>	<u>2,126.00</u>	<u>1,311.16</u>	<u>707.15</u>	
NET LOSS (PROFIT)	<u>542.24</u>	<u>1,047.27</u>	<u>835.84</u>	<u>682.60</u>	<u>1,277.94</u>	<u>2,008.18</u>	
Cash and Bank Balances							
Debtors	3,417.43	3,506.88	3,174.34	1,484.92	1,425.40		
Deposits & Prepayments	813.00	660.00	660.00	660.00	150.00		
Total	<u>1,417.43</u>	<u>1,290.00</u>	<u>1,090.00</u>	<u>890.00</u>	<u>690.00</u>		
Less: Sundry Creditors	<u>5,720.43</u>	<u>5,456.88</u>	<u>4,924.34</u>	<u>3,034.92</u>	<u>2,265.10</u>		
NET CURRENT ASSETS	<u>3,639.98</u>	<u>3,441.33</u>	<u>3,107.23</u>	<u>2,823.49</u>	<u>1,810.75</u>		
	<u>2,080.45</u>	<u>2,015.55</u>	<u>1,817.11</u>	<u>211.43</u>	<u>454.65</u>		

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TABLE IV (Cont'd.) - TRADING RESULTS (in E. A. shs.)

	<u>Expenditure</u>	<u>July</u> 454.10	<u>August</u> 553.40	<u>September</u> 423.65	<u>October</u> 230.00	<u>November</u> 571.00	<u>Budget for Year</u> 11,000.00
Wages							
Rent	150.00	150.00	150.00	150.00	150.00	150.00	2,400.00
Stationery	2.00	-	3.00	-	-	-	600.00
General Expenses	21.90	47.00	-	14.30	71.25	1,000.00	
Advertising	100.00	100.00	100.00	100.00	100.00	100.00	6,000.00
Transport	80.00	80.00	80.00	80.00	80.00	960.00	
Electricity	70.00	70.00	70.00	70.00	70.00	70.00	1,200.00
Salary	600.00	600.00	600.00	600.00	600.00	600.00	7,200.00
Repairs & Maintenance	50.00	50.00	50.00	50.00	50.00	600.00	
Interest	123.42	125.00	123.23	119.45	117.44	1,520.00	
Loan Redemption	600.00	600.00	600.00	600.00	600.00	6,400.00	
Depreciation	192.26	192.26	192.26	192.26	192.26	2,320.00	
Insurance	-	140.00	-	-	-	-	
Commission							
Total Expenditure		<u>2,453.58</u>	<u>2,707.66</u>	<u>2,392.14</u>	<u>2,206.01</u>	<u>2,601.95</u>	<u>11,200.00</u>
 <u>REVENUE (net)</u>							
Welding	(30.10)	74.75	120.75	214.65	104.00	2,800.00	
Engine Reconditioning	(67.50)	796.00	341.00	990.00	608.00	24,000.00	
General Maintenance	313.50	1,007.90	351.50	227.75	414.00	12,000.00	
Battery Charging	(23.50)	94.52	54.30	93.00	39.50	2,880.00	
Misc. Income	-	-	60.00	-	-	1,200.00	
Total Revenue	<u>192.40</u>	<u>1,973.17</u>	<u>867.55</u>	<u>1,585.40</u>	<u>1,165.50</u>	<u>42,880.00</u>	
 <u>TOTAL EXPENDITURE</u>							
<u>Less: TOTAL REVENUE</u>	<u>2,453.58</u>	<u>2,707.66</u>	<u>2,392.14</u>	<u>2,206.01</u>	<u>2,601.95</u>	<u>11,200.00</u>	
<u>NET LOSS (PROFIT)</u>	<u>2,261.18</u>	<u>734.49</u>	<u>1,524.59</u>	<u>620.61</u>	<u>1,436.45</u>	<u>42,880.00</u>	
 <u>CURRENT ASSETS</u>							
Cash and Bank Balances	216.30	637.22	460.29	943.29	853.22		
Debtors	150.00	325.00	325.00	325.00	325.00		
Deposits & Prepayments	490.00	450.00	450.00	450.00	450.00		
Total	<u>856.30</u>	<u>1,412.22</u>	<u>1,235.29</u>	<u>1,718.29</u>	<u>1,628.22</u>		
Less: Sundry Creditors	<u>1,715.50</u>	<u>1,689.50</u>	<u>2,491.35</u>	<u>2,498.45</u>	<u>2,888.45</u>		
<u>NET CURRENT ASSETS</u>	<u>(889.20)</u>	<u>(277.28)</u>	<u>(1,256.06)</u>	<u>(780.16)</u>	<u>(1,260.23)</u>		

TABLE V

EQUIPMENT MISSING IN HOIMA

<u>Item</u>		<u>Cost (shs.)</u>
E. T. 112 P.A. Testing Butjit		477.14
Valve Master Refacer Complete		2,095.00
55 Vibro Centric Kit		295.00
Micrometer Attachment		180.00
Wolf Bench Drill		400.00
Reamer		90.00
Set Adjustable Pilot Type		475.00
Record Vise		110.00
Stud Extractor		55.00
Stocks and Dies	about	150.00
Thread Belt and Nuts	"	50.00
Hydrometer	"	50.00
Reader Compression Gauge	"	<u>250.00</u>
		5,377.14

(It appears that Mr. N. bought the last four items
on this list by himself with money given to him in cash.)

Mr. S. R. - Fishing Scheme

Mr. S. R. was a typical fisherman operating on Lake Albert. He fished from a large, four-man canoe with a net which was set early in the morning and picked up several hours later to be set a second time in the afternoon and again picked up before dark. It is not known whether he owned the canoe he used or, as was more likely, was paid by an absentee owner to operate it.

In early 1960 he approached UDC for financial assistance in purchasing a diesel driven launch with nets, ropes, and the other paraphernalia necessary for a large scale fishing operation. This equipment he thought would cost about shs. 60,000/-. He had no security to offer except some land.

In initial talks with Mr. R., UDC pointed out that it was its policy whenever possible to require a loan recipient to put up some of the money needed for a project himself. As UDC was prohibited from accepting African land as security, Mr. R. was advised to offer it to the Uganda Credit and Savings Bank who were not under such a restriction. UDC might then consider putting up the rest of the money needed.

Before Mr. R. went to the UC&SB, UDC approached the Game and Fisheries Department for advice and help in processing this application. They reported that the scheme was sound and showed some foresight on Mr. R.'s part. Fishing had been growing as a business and could be expected to continue to grow. However, they pointed out that Mr. R. had little security or capital. One

local fisheries officer stationed at Lake Albert reported that "Mr. R. is known to me as a butterfly who does not stick to any project for long." He advised careful consideration of the advisability of entrusting him with any large sum of money. A second local fisheries officer said that he would like to see Mr. R. given a chance to make a try but claimed that there was considerable risk that half of the money would be lost. UDC was aware that some of these reports might be colored by personal feelings or tribal prejudices.

In studying the scheme, UDC noted that there were no maintenance or repair facilities for diesel launches on Lake Albert. A minor breakdown could, therefore, halt operations for an extended period of time. More serious trouble, requiring a mechanic to be brought in, would be extremely expensive.

More importantly, marketing the greatly enlarged catch would be a problem. Freshly caught fish have to be sold the day they are caught. Lake Albert lies between the Belgian Congo and Uganda. The Congo had recently been given its independence and was, at this time, in a state of chaos. This chaos extended to the Uganda border. Before its independence it had provided a larger market than Uganda, especially in dry salted fish. The loss of this easily accessible market was therefore serious to all local fishermen.

There was talk of one of the large fish packing and freezing companies, which operated on Lakes George and Edward to the south, starting up facilities on Lake Albert to receive and process freshly caught fish. Mr. R. had

heard this talk and it had formed one of the key stones for his scheme. UDC however learned that this move was not anticipated to take place for some time, being delayed mainly because of the temporary loss of the Congo market. It therefore appeared that there would be practically no assured market for Mr. R.'s greatly enlarged catch.

With these considerations in mind, as well as the conflicting reports from the Game and Fisheries officers, UDC decided to shelve the project for a year or so until the Congo settled down and a clear market was assured. With this basic problem solved, the other drawbacks could be re-studied.

Henry B. Thomas

Case 9

Dr. B. K. - Bakery

Early in October, 1959, the Uganda Credit & Savings Bank (UC&SB) asked UDC if it could meet with them and a Mr. S. to discuss a project Mr. S. had put to them. At the meeting it was learned that Mr. S. was a Master Baker, having been trained in the United Kingdom. At the moment he was working for another African, Mr. M., who owned and operated several large bakeries. Mr. S. was running one of them, one that Mr. M. leased by an informal arrangement from its Asian owners.

This leasing arrangement was no doubt a result of the trade boycott directed against Asian businessmen and was due to end at the end of October. Mr. M. did not wish to renew the arrangements. Mr. S., however, wanted to continue working at this bakery, there evidently being no place for him in another part of Mr. M.'s operation. He therefore had approached the UC&SB for help in financing an extension of the lease in his name and in setting himself up in his own business on these premises.

The UC&SB could offer Mr. S. some help on the basis of the security he had offered but not enough. They had therefore come to UDC to see if it could help. They pointed out that the proposition was only marginally profitable unless Mr. S. could obtain a supply contract from a major wholesaler such as Mr. M. or unless he undertook his own distribution to shopkeepers. This latter course was recognized as being quite expensive. UDC took this project under consideration.

A week or so later UDC had to inform the UC&SB that it could not help

the scheme as it was presently constituted. From the figures the business was not profitable enough, or likely to be, to service a heavy loan. A big drawback was the tenuous nature of the agreement with the owners of the premises.

Just after UDC had written to the UC&SB a Dr. B. K. came into its offices with a similar proposal. He wanted to purchase a bakery another Asian was selling, again due to the boycott. Dr. K. did not intend giving up his medical practice, instead he intended to put the bakery in charge of his brother-in-law. A Mr. N. accompanied Dr. K. on this first visit. His position was at first explained as being that of an "intermediary" but it was shortly learned that it was his sister-in-law who would be in technical charge of baking.

Dr. K. said that the bakery was selling for shs. 65,000/-. He had in mind a three year loan, secured by a Bill of Sale over the plant and equipment. He had shs. 25,000/- of his own which he was willing to invest and he wanted UDC to put up the other shs. 40,000/-.

This proposition did not appeal greatly to UDC. However, it appeared that by combining Mr. S.'s skills and Dr. K.'s money, a viable scheme might be produced. To this end, the two men were introduced to each other. They immediately saw the merits of combining forces and went off to prepare a joint application. This was received early in November.

In essence it amounted to renting the bakery Dr. K. had originally wanted to purchase and investing some shs. 60,000/- as working capital. Dr. K. and Mr. S. had talked with the owner of the bakery who had agreed to renting instead of selling. This bakery was evidently better suited

to their purpose than the one Mr. S. had worked in. Of the shs. 60,000/- needed, Dr. K. was willing to put up shs. 40,000/-.

UDC executives visited the bakery with Mr. S. and Dr. K. to assure themselves that the plant was in working order. The boycott had forced the owner to cease operations in May and the plant had been idle since then. The equipment proved to be quite modern and housed in a spacious building. The oven had been installed in February and had, therefore seen only about two months' use. Though the plant seemed to be in quite satisfactory condition, Dr. K. and Mr. S. were advised to call in a factory inspector to certify that the place complied with the Factories Ordinance.

During the inspection the owner appeared and several details concerning the leasing agreement were discussed. As there were some points that needed further working out, Dr. K. agreed to discuss the agreement further with the landlord, contacting UDC when it was in order.

A week later he reported the satisfactory conclusion of these talks and UDC prepared the proposal for submission to the Small Industries Committee for approval. This was supported by detailed estimates of revenue and expenditure drawn up jointly by UDC and the two applicants. They indicated that the proposal had a reasonable chance of profitability and success provided sales were maintained.

The proposal was approved and a loan agreement was drawn up early in December. The loan was to be to Dr. K. himself and included the following terms and conditions:

- a) The loan was to be in the amount of shs. 20,000/-.
- b) Repayment was to commence three months after the commencement of production, a date to be set by UDC.
- c) Repayment would be by equal monthly installments spread over two years.
- d) Interest would be at 7% per annum, payable monthly on the outstanding balance.
- e) Security would be by a Bill of Sale over Dr. K.'s six month old car (estimated to be worth shs. 14,000/-).
- f) Dr. K. would invest shs. 40,000/- in the business.
- g) A separate bank account for the business would be opened.
- h) UDC would have the right to tender technical and/or administrative advice.

Dr. K. accepted these terms and conditions and the loan was made.

Late in January, the UC&SB informed UDC that Mr. S. had approached them for a loan of shs. 16,950/- for use in purchasing a delivery van. Mr. S. had told them that this was to be his contribution to capital, thus making him a full partner in the enterprise. However, the Bank's normal practice, before a loan for a motor vehicle could be approved, was to require a deposit of 50% of the cost. Mr. S. could not fulfill this condition, though he had adequate security. The UC&SB asked UDC for its opinion of the application.

In response to this request, UDC executives visited the bakery to get a first hand picture of the necessity for a new delivery van. Their impression was that the bakery was being well run. Dr. K. and Mr. S., both of whom were present, claimed that while all was going well in the factory, the immediate need was for a second delivery van to reach areas

which could not be serviced by one van. Though two vans had been included in the leasing agreement, one was unserviceable. The increasing demand for their bread could only be met with a second van. This appeared most reasonable and UDC recommended to the UC&SB that it make the loan, pointing out that there was no doubt but that the lack of a second van was a bottleneck to sales.

During this visit, UDC suggested to Dr. K. and Mr. S. that their bookkeeper should come to the UDC offices for a talk on his bookkeeping system and how it might be improved.

Late in February, UDC wrote to Dr. K. to set a date for the commencement of production to be used in deciding when the first installment of the loan repayment would be due. It noted that production had actually started shortly after the loan was granted early in December. However, UDC had decided to set January 1, 1960 as the effective date. Therefore, the first installment would be due on April 1st.

The letter also enclosed a statement indicating that the January 1 interest charges of shs. 118/58 were due together with charges in connection with completing the Bill of Sale. These were in the amount of shs. 68/50, being mostly stamp charges. The suggestion was again made that UDC might help in the accounting side and Dr. K. was asked to send his bookkeeper to its offices.

There was no answer to this letter or to subsequent monthly notices of payments due. In April, UDC executives visited the factory and found that both Dr. K. and Mr. S. were absent. A message was left for them to call at the UDC offices, which Mr. S. did that afternoon. During a discussion

on the state of the business, Mr. S. claimed that he was short of enough cash to pay for flour. He requested that the Corporation guarantee his buying flour on credit on a weekly basis.

When asked whether Dr. K. had put his shs. 40,000/- into the business as stipulated in the loan agreement, Mr. S. had to admit that he did not know. He said that all the bank transactions having to do with the bakery were done on Dr. K.'s personal account. He was short of cash due to Dr. K.'s absence. He did not appear to know when Dr. K. had gone. Mr. S. was asked to return several days later with the account books and Dr. K. if he had returned.

Mr. S. did not return as requested and no word was heard of Dr. K. Finally in May Dr. K. did appear and a meeting was arranged. It was hoped that the bookkeeper would be present at this meeting but he failed to turn up. Both Dr. K. and Mr. S. were present.

The meeting opened with a statement by UDC that it was disappointed with the way things seemed to be going. It mentioned for Dr. K.'s benefit the request for a guarantee of credit made earlier by Mr. S. Dr. K. pointed out that during his absence the affairs of the business seemed to have gotten out of hand. The original manager and bookkeeper had been dismissed and others appointed without his knowledge.

When asked if he had opened a separate banking account for the business and deposited in it his share, he replied that he had opened such an account and had transferred so far shs. 10,000 to it as his share. He explained the procedure laid down for dealing with payments for purchases. These apparently were done with blank checks. When pressed, Dr. K. admitted that he knew little about the business or what the checks had been signed for.

As little further could be accomplished without up-to-date accounts, a second meeting several days later was agreed to, at which time the bookkeeper would be present with the accounts.

This meeting was held as scheduled. However, it was discovered that the books had been written only up to the end of February. It was obvious that the bookkeeper spent little time on the books. Once again another meeting had to be scheduled for a week later when it was hoped that the bookkeeper would have brought the accounts up-to-date. This meeting was never held.

During this second meeting ignorance of or an unwillingness to give information on a number of points was turned up. One example concerned a theft from the cash box. No one was able to say even the approximate amount that was stolen. No one seemed to know how much each porter was paid. An answer to the question of whether the business had made a profit or loss during its first three months of operation (for which time the books were up-to-date) was not forthcoming.

A month later some of the account books were produced. Needless to say, they were far from current. UDC decided that it would have to bring them up-to-date itself and requested Dr. K.'s help in procuring the missing books. It pointed out to him that its preliminary investigation of the accounts indicated that most of the capital already invested in the business had gone.

By the middle of July, UDC was satisfied that its shs. 20,000/- as well as Dr. K.'s shs. 10,000/- had all been spent. Dr. K. had never made a single interest payment, let alone capital repayment, and as the conduct

of the business had left a great deal to be desired, there could be no question of refinancing the business for another start. Dr. K. was informed of this decision and that the only matter that remained as far as UDC was concerned was the repayment of its shs. 20,000/-. UDC pointed out that it felt entitled to ask for repayment of this sum from shs. 30,000/- Dr. K. was to have put into the business but that it would be prepared to accept monthly repayments.

Dr. K. replied agreeing that all of the shs. 30,000/- UDC and he had invested "was lost." He requested that repayment of the loan be postponed for four months as he had to pay off other outstanding debts of the company totalling some shs. 10,000/-. "Meanwhile I will be paying the interest on the loan."

Nothing further was heard from Dr. K. until the middle of September when he finally heeded a summons from UDC to appear to discuss repayment arrangements. Up to this point no payments from Dr. K. had ever been received. It was agreed at this meeting that the terms of the loan be varied as of the first of October. From that date Dr. K. was to start to repay the capital at the rate of shs. 400/- per month. The total accrued interest was still to be paid. Dr. K. was to immediately make a payment of shs. 1,000/- towards repaying the capital.

This initial payment was made but the first two shs. 400/- installments were not. Also, no interest payments were received. By this time accrued interest had mounted up to over shs. 1,000/-. UDC therefore asked its lawyers towards the end of November to write to Dr. K., threatening proceedings unless the outstanding balance was immediately paid. This letter

received no response so a second was sent by UDC's lawyers a week later, this time adding that UDC had asked them to try to persuade Dr. K. to contact them with a proposal for repayment.

Dr. K. heeded this suggestion and contacted UDC directly, asking for an interview. This was immediately granted. During it a second variation of the terms of the loan agreement was granted. The shs. 1,000/- already paid would be credited to Dr. K.'s interest account, thereby reducing it to an outstanding balance of about shs. 240/-. Dr. K. was to immediately pay shs. 600/- which would be used to pay off the remaining accrued interest charges, the rest to reduce the capital balance. At the end of each month, starting with December, for the next four months, Dr. K. was to pay shs. 200/- as capital repayment plus the interest charges. Starting with the end of April, Dr. K. would increase his capital repayments to shs. 400/- a month.

Dr. K. once again failed to keep to this agreement, other than making the initial payment of shs. 600/-. By the beginning of May, 1961 he owed shs. 2,320/- to UDC as interest and capital repayments. A letter written to him reminding him of his indebtedness and again threatening foreclosure on the security produced a response late in June. Dr. K. claimed that he was unable to increase his monthly repayments by shs. 200/- (though in fact he had never made any monthly capital repayments) and requested that he be allowed to continue at shs. 200/- a month.

UDC once again agreed to a variation in the agreement, if the Banker's Order were sent immediately. It was, but unsigned. Efforts to obtain Dr. K.'s signature failed. It was learned that his car, which formed the security

for the loan, had long since been reduced to practically no value so there was no point in foreclosing on the Bill of Sale. UDC continued its efforts to collect, though it was forced to write the loan off on its books. A total of shs. 18,840/- was still outstanding, besides accrued interest charges.

Henry B. Thomas

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